PERAC AUDIT REPORT

Norwood Contributory Retirement System

JAN. 1, 2004 - DEC. 31, 2006

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman* JOSEPH E. CONNARTON, *Executive Director*
MARY ANN BRADLEY | PAUL V. DOANE | |KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS

October 24, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Norwood Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2004 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Martin J. Feeney who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. **Refunds**

In 2005, a member was issued two refund checks. In addition to the amount of $8,795.40 he was entitled to, an additional check for the same amount was issued. Both checks were cashed by the former member. He has ignored correspondence from the Board in an attempt to obtain a refund of the duplicate payment.

Recommendation: The Board needs to consider all legal remedies available to it to recover the funds. A civil action should be initiated to seek recovery, and the possibility of referral to the District Attorney for possible criminal action should be considered.

Board Response:

The Board discussed the first finding regarding a member being issued duplicate refund checks in error and agrees with this finding. The Board has been in correspondence with the individual in question. He has agreed to pay a portion of the overpayment in a lump sum and the remainder to be paid on a monthly basis until such time as the total is paid in full. The Board's attorney is in the process of drafting an agreement which the former member will have to sign to make this legally binding. Should the former member break this agreement the Board will take civil action to recover said monies.

2. **System Administration**

The Executive Secretary currently has an employment contract with the Norwood Retirement Board that classifies her as an independent contractor rather than an employee. This arrangement could be problematic and should be promptly reviewed.

Recommendation: The Board must clarify the employment status of the Executive Secretary. In doing so, the Board should consult IRS Publication 15-a-2 and IRS Form SS8. The contractual agreement alone does not establish status. The determination of the Board may impact whether the Board is responsible for tax withholding, unemployment taxes, retirement contributions, and other benefit related actions. The Board should also consult the attached criteria, ***"Independent Contractor vs. Employee"***, as it makes this determination. The Board must notify PERAC in writing of its decision and the reasons for that decision.

Board Response:

The second finding is the issue of the Executive Secretary performing duties and being classified as an "independent contractor" rather than an "employee". Although this position has been classified as an independent contractor status since April 1998, the Board has agreed to change this to the classification of employee, effective January 1, 2008.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS
(Continued)

3. Cash

a. The Treasurer does not reconcile all the System's bank accounts. Of the four active accounts, one is reconciled by the Board's Executive Secretary, another is received with an automatically generated reconciliation, and the other two are reconciled by the Treasurer. The balance reported on the automatically generated reconciliation does not agree with the System's general ledger. In addition, there are a number of outstanding checks that are over six months old. The Executive Secretary has been reviewing these outstanding checks on a continuing basis, and has voided and reissued them as necessary. This finding is nearly identical to the condition cited in the previous audit.

b. A bank account maintained for the purpose of paying non-contributory retirees is not listed in the System's general ledger, but is now being footnoted on its Annual Statement.

Recommendation:

a. The Treasurer has a fiduciary responsibility for the care and custody of retirement funds as outlined in G.L. c. 32, § 23(2) (a). Bank statements must be reconciled to the System's general ledger monthly, reviewed by the Treasurer and the Executive Secretary, and approved by the Board at the subsequent meeting. Maintaining an adequate system of internal financial control is a basic responsibility for trustees in a fiduciary capacity.

b. All bank accounts held in the name of the Norwood Retirement Board must be recorded in the general ledger and reported on the Annual Statement.

Board Response:

a. The third issue is regarding the cash reconciliation process with the Treasurer's Office. The Board agrees with said finding and has determined that three of the four accounts are in fact reconciled by either the Treasurer or the Board's Executive Secretary. The fourth account is automatically reconciled by a computer generated report from the bank. This reconciliation is not always in agreement with the balance as recorded by the System as there are some old outstanding items. The Executive Secretary has been attempting to reconcile this statement and clear up any old issues and will continue to do so with the Treasure's Office. The Treasurer will be advised that going forward this account must be reconciled in house as are the other three. Upon reconciliation of the bank statements they will all be presented to the Retirement Board for review on a regular (monthly) basis.

b. The Board has determined that the issue of the Non-Contributory Retiree Payroll account is being handled by including that account as a footnote on the Annual Statement. Per the Retirement System's Actuary these monies are technically not assets of the Retirement System and can not be included as assets when performing an Actuarial Valuation. Since there is not a place on the Annual Statement where these monies could be recorded the Board feels that noting it on the Annual Statement provided the necessary disclosure.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS
(Continued)

4. Expenses

The Board paid $7,000 in 2004, $7,250 in 2005, and $7,500 in 2006 as their portion of the Town's independent audit. This audit was not solicited by, procured for, or contracted with the consent of the retirement board. Since these expenses were not authorized by the Board, they are considered improper.

Recommendation: While the Town's auditors may include Board data in their report, the Town may not incur any debt on behalf of the Board. Consequently, the Board must seek to be reimbursed by the Town for these expenses.

Board Response:

The Board has reviewed the expense issue regarding payment made to an outside audit firm which has been auditing the town and the Retirement Board for a number of years. The Board has always known about and agreed to have the audit performed as part of a yearly procedure to ensure that all financial records are being maintained and that the management functions are being performed in accordance with the standards established by PERAC. The Board was previously advised that they would be asked to pay a pro rata share of the town audit cost for the portion of the audit that pertained to the Retirement System. This was not recorded in the minutes, in error. The vouchers and warrants to pay for said services were always explained and presented to the Board and approved for payment. In the future, the Board will be presented with the contract from any outside firm looking to audit the Retirement System as part of the Towns audit. The minutes of the Board meetings will document approval to pay any funds for said services prior to any work being performed or paid for.

5. General Ledger

The Executive Secretary maintains a manual General Ledger, in addition to using an automated General Ledger utilizing the TACS System. In a number of instances, journal entries were posted to the manual General Ledger that were not reflected in the TACS System, and vice versa. In addition, there were cases where adequate documentation was not provided for entries made to the manual General Ledger, making it difficult to determine the purpose for such entries. The result was reconciling issues and delays in the closing process. The integrity of the general ledger was difficult to substantiate.

Recommendation: The TACS System provides many necessary controls and safeguards, and compiles the required financial information. The manual general ledger is an apparent duplication that does not provide valid corroboration. It is recommended this function be discontinued.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS
(Continued)

Board Response:

The Board has reviewed this issue and has determined that there is a duplication of effort since the TACS System does provide all the necessary controls and safeguards as well as all the reports necessary for submission to PERAC. As such, the manual general ledger has been discontinued effective December 31, 2006.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS
(Continued)

<u>Independent Contractor vs. Employee</u>

To determine whether a worker is an independent contractor or an employee under common law, you must examine the relationship between the worker and the business. All evidence of control and independence in this relationship should be considered. The facts that provide this evidence fall into three categories – Behavioral Control, Financial Control, and the Type of Relationship itself.

Behavioral Control covers facts that show whether the business has a right to direct or control how the work is done through instructions, training, or other means.

Financial Control covers facts that show whether the business has a right to direct or control the financial and business aspects of the worker's job. This includes:

- The extent to which the worker has unreimbursed business expenses,
- The extent of the worker's investment in the facilities used in performing services,
- The extent to which the worker makes his or her services available to the relevant market,
- How the business pays the worker, and
- The extent to which the worker can realize a profit or incur a loss.

Type of Relationship covers facts that show how the parties perceive their relationship. This includes:

- Written contracts describing the relationship the parties intended to create,
- The extent to which the worker is available to perform services for other similar businesses,
- Whether the business provides the worker with employee–type benefits, such as insurance, a pension plan, vacation pay, or sick pay,
- The permanency of the relationship, and
- The extent to which services performed by the worker are a key aspect of the regular business of the company.

Please visit <u>http://www.irs.gov/taxtopics/tc762.html</u> for more information on this topic.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31, 2006	2005	2004
Net Assets Available for Benefits:			
Cash	$1,595,744	$859,140	$730,907
Short Term Investments	0	0	0
Fixed Income Securities	1,495,371	1,492,189	0
Equities	33,783,375	32,379,146	32,775,166
Pooled Domestic Equity Funds	18,895,190	17,202,972	15,928,954
Pooled International Equity Funds	23,059,139	18,921,226	15,622,268
Pooled Domestic Fixed Income Funds	29,943,309	28,695,725	29,492,913
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	20,246	17,949	0
Accounts Receivable	156,921	219,807	356,469
Accounts Payable	(218,044)	(107,966)	(156,118)
Total	$108,731,251	$99,680,187	$94,750,560
Fund Balances:			
Annuity Savings Fund	$22,650,913	$21,472,761	$20,545,140
Annuity Reserve Fund	6,190,603	5,825,617	5,586,860
Pension Fund	0	0	0
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	79,889,735	72,381,810	68,618,561
Total	$108,731,251	$99,680,187	$94,750,560

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2004)	$19,017,414	$5,585,631	$0	$0	$0	$63,784,228	$88,387,273
Receipts	2,267,883	164,404	2,259,981	0	516,455	7,929,224	13,137,947
Inter Fund Transfers	(611,265)	610,428	3,095,728			(3,094,891)	0
Disbursements	(128,892)	(773,604)	(5,355,709)	0	(516,455)	0	(6,774,660)
Ending Balance (2004)	20,545,140	5,586,860	0	0	0	68,618,561	94,750,560
Receipts	2,161,282	169,989	2,308,145	0	541,506	7,087,442	12,268,363
Inter Fund Transfers	(834,623)	834,623	3,324,193	0	0	(3,324,193)	0
Disbursements	(399,039)	(765,854)	(5,632,338)	0	(541,506)	0	(7,338,737)
Ending Balance (2005)	21,472,760	5,825,617	0	0	0	72,381,810	99,680,186
Receipts	2,382,796	180,209	2,612,619	0	599,649	10,739,667	16,514,940
Inter Fund Transfers	(980,183)	980,183	3,231,741			(3,231,741)	0
Disbursements	(224,460)	(795,406)	(5,844,360)	0	(599,649)	0	(7,463,875)
Ending Balance (2006)	$22,650,913	$6,190,603	$0	$0	$0	$79,889,736	$108,731,251

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2006	2005	2004
Annuity Savings Fund:			
Members Deductions	$2,109,878	$1,975,860	$1,911,857
Transfers from Other Systems	88,723	0	124,095
Member Make Up Payments and Re-deposits	59,020	65,842	119,833
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	125,175	119,580	112,098
Sub Total	2,382,796	2,161,283	2,267,883
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	180,209	169,989	164,404
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	110,530	113,655	114,531
Received from Commonwealth for COLA and Survivor Benefits	250,770	275,494	437,613
Pension Fund Appropriation	2,251,319	1,918,996	1,707,837
Sub Total	2,612,619	2,308,145	2,259,981
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	0	0	0
Sub Total	0	0	0
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	599,649	541,506	516,455
Sub Total	599,649	541,506	516,455
Pension Reserve Fund:			
Federal Grant Reimbursement	73,315	74,071	52,589
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	4,882	2,076	2,153
Miscellaneous Income	5	7,600	3,600
Excess Investment Income	10,661,465	7,003,695	7,870,883
Sub Total	10,739,667	7,087,442	7,929,224
Total Receipts	$16,514,940	$12,268,364	$13,137,947

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
Annuity Savings Fund:			
Refunds to Members	$72,087	$195,825	$93,945
Transfers to Other Systems	152,373	203,215	34,947
Sub Total	224,460	399,039	128,892
Annuity Reserve Fund:			
Annuities Paid	795,406	727,362	690,687
Option B Refunds	0	38,492	82,916
Sub Total	795,406	765,854	773,604
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	3,737,116	3,457,721	3,312,480
Survivorship Payments	350,861	332,954	318,588
Ordinary Disability Payments	134,394	159,018	119,889
Accidental Disability Payments	1,019,222	996,473	996,947
Accidental Death Payments	461,048	518,154	488,735
Section 101 Benefits	29,848	41,589	42,545
3 (8) (c) Reimbursements to Other Systems	111,871	126,428	76,525
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	5,844,360	5,632,338	5,355,709
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	0	0	0
Expense Fund:			
Board Member Stipend	12,000	12,250	12,000
Salaries	50,107	44,693	42,347
Legal Expenses	6,911	8,091	3,981
Medical Expenses	0	0	0
Travel Expenses	5,382	3,928	2,305
Administrative Expenses	102,301	76,629	73,804
Furniture and Equipment	1,842	2,022	194
Management Fees	302,103	288,536	279,002
Custodial Fees	69,188	51,647	50,414
Consultant Fees	45,028	49,188	52,408
Fiduciary Insurance	4,787	4,522	0
Sub Total	599,649	541,506	516,455
Total Disbursements	$7,463,875	$7,338,737	$6,774,660

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
Investment Income Received From:			
Cash	$31,350	$20,943	$7,718
Short Term Investments	0	0	2,011
Fixed Income	38,231	0	0
Equities	403,693	345,973	366,766
Pooled or Mutual Funds	1,603,010	895,770	219,917
Commission Recapture	0	21,260	23,995
Total Investment Income	2,076,284	1,283,946	620,407
Plus:			
Realized Gains	1,554,747	1,231,250	1,171,095
Unrealized Gains	10,593,349	8,536,737	9,446,388
Interest Due and Accrued on Fixed Income Securities - Current Year	20,246	17,949	0
Sub Total	12,168,342	9,785,936	10,617,483
Less:			
Paid Accrued Interest on Fixed Income Securities	(822)	(9,009)	0
Realized Loss	(869,534)	(1,684,197)	(1,316,003)
Unrealized Loss	(1,789,824)	(1,541,906)	(1,258,049)
Interest Due and Accrued on Fixed Income Securities - Prior Year	(17,949)	0	0
Sub Total	(2,678,129)	(3,235,112)	(2,574,052)
Net Investment Income	11,566,497	7,834,770	8,663,839
Income Required:			
Annuity Savings Fund	125,174	119,580	112,098
Annuity Reserve Fund	180,209	169,989	164,404
Military Service Fund	0	0	0
Expense Fund	599,649	541,506	516,455
Total Income Required	905,032	831,075	792,956
Net Investment Income	11,566,497	7,834,770	8,663,839
Less: Total Income Required	905,032	831,075	792,956
Excess Income To The Pension Reserve Fund	$10,661,465	$7,003,695	$7,870,883

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2006		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	$1,595,744	1.5%	100%
Fixed Income	1,495,371	1.4%	40-80%
Equities	33,783,375	31.1%	40%
Pooled Domestic Equity Funds	18,895,190	17.4%	40%
Pooled International Equity Funds	23,059,139	21.2%	10%
Pooled Domestic Fixed Income Funds	29,943,309	27.5%	20-80%
PRIT Cash Fund	0	0.0%	
PRIT Core Fund	0	0.0%	
Grand Total	$108,772,128	100.0%	

For the year ending December 31, 2006, the rate of return for the investments of the Norwood Retirement System was 11.99 %. For the five-year period ending December 31, 2006, the rate of return for the investments of the Norwood Retirement System averaged 8.73 %. For the twenty-two-year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Norwood Retirement System was 10.38 %.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Norwood Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

March 28, 2001

16.08 In accordance with PERAC Investment Guideline 99-2, the Norwood Retirement System may modify its fixed income mandate with David L. Babson to allow for opportunistic investment in high-yield securities up to a maximum of 10% of the total portfolio. Babson has been the system's fixed income manager for over six years. The Board and its consultant have examined and are satisfied with Babson's capabilities in the high-yield sector.

January 9, 1998

20.03(1) Equity investments shall not exceed 70% of the portfolio valued at market, including international equities which shall not exceed 10% of the portfolio valued at market.

July 23, 1997

20.03(2) At least 20 % but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds which shall be limited to 10% of the total fixed income portfolio valued at market.

December 15, 1994

20.06(8) Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations for the calendar years 1994 and 1995.

20.07(6) Purchases and sales of equity investments shall not exceed 300% of the average market value of all equity holdings in any twelve-month period for calendar years 1994 and 1995.

20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period commencing calendar year 1996.

October 27, 1994

18.02(4) **Rate of Return.** A statement of the rate of return objective for the entire portfolio which shall be to achieve a compound rate of return in excess of an index consisting of sixty percent of the Standard and Poor's 500 Stock Index and forty percent of the Lehman Brothers Aggregate Index.

18.02(5) **Risk**. The expected level of risk for the equity portion of the portfolio expressed in terms of an annual average beta coefficient with 1.0 equal to market volatility which, for boards partially or wholly exempt from statutory investment restrictions pursuant to 840 CMR 19.05, shall be not less than .80 nor more than 1.20 as determined in accordance with the beta service approved by the Executive Director..

October 27, 1994 (Continued)

20.03(2) At least 20% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

(a) the retirement board does not participate in the selection of the personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
(b) such personnel retain authority in the decision making process, and
(c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

October 6, 1994

16.02(3) The board may incur expenses for the investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Expenses for investment management and consulting services may be charged against earned income from the investments provided that the total of such expenses shall not exceed in any one year:

(a) 1% of the total value of the fund for the first $5 million; and
(b) 0.5% of the value of the fund in excess of $5 million.

January 7, 1992

20.03(1) (a) Domestic equities shall not exceed 40% of the total book value of the portfolio at the time of purchase.
(b) International equities shall not exceed 5% of the book value of the portfolio at the time of purchase.

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on the United States stock exchange, traded over the counter in the United States, or listed and traded on the foreign exchange.

December 24, 1991

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

November 7, 1989

20.04(6) The portion of the portfolio that is invested in the MFS Lifetime Capital Growth Trust may include investments in foreign securities which are traded on foreign exchanges.

November 1, 1989

20.07(9) Real estate investments shall not exceed 5% of the total book value of the portfolio at the time of purchase and shall consist of real estate trusts and partnerships, provided that:

(a) trust participants or limited partners do not participate in the selection of trustees or general partners and should a trust participant or limited partner be required to participate in the selection of a trustee or general partner, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action, and
(b) such trustees or general partners retain authority in the decision making process, and
(c) should an investment in a trust or limited partnership result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Norwood Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of $30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

- Salary is defined as gross regular compensation.

- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $611.28 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of $100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child, and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first $12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Norwood Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 31, 1997
Make-Up Payments The minimum deduction regarding make-up payments would be no less than $10.00 per week, or $500.00 per year.

February 13, 1991
Membership Any new hires must earn a minimum of $5000.00 per year and work a minimum of twenty (20) hours per week to be eligible for membership into the Norwood Retirement System. (Traffic and Cafeteria Workers are exempt).

July 7, 1986
Election Rules Sixty Day notice requirement for use in retirement board election.

December 31, 1984
Creditable Service

1. Service Credit for Employees on Provisional Basis.
Employees who are employed on a full time regular basis and wish to receive credit for the time they spent on a provisional or part-time basis will be given credit for each month worked prior to becoming a full time regular employee. Any part of a month is to be considered a full month.

2. Part-time employees.
The minimum salary for acceptance of part-time workers into the Norwood Contributory Retirement System shall be $1500.00 yearly. Anyone earning less than $1500.00 will not be accepted as a member.

In each and every case concerning part-time workers the board shall determine what service credit shall be for each individual permanent part-time position. The basis for a full year's credit shall be 2000 hours.

The Board has determined that this policy on part-time workers shall apply to all part-time workers now in the system as well as those who join the retirement system in the future.

3. Police Traffic Supervisors and Cafeteria Workers.
Police Traffic Supervisors and School Cafeteria Workers shall receive a full year's credit for each year worked.
(Amended February 13, 1991. See Membership).

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	Robert M. Thornton		
Appointed Member:	Julia E. Lundin	Term Expires:	1/01/2008
Elected Member:	Eileen P. Hickey	Term Expires:	10/15/2007
Elected Member:	Thomas F. O'Toole	Term Expires:	12/01/2008
Appointed Member:	Joseph F. Curran	Term Expires:	01/01/2009

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	
Ex-officio Member:	)	$50,000,000
Elected Member:	)	MACRS Policy
Appointed Member:	)	$1,000,000 Employee Dishonesty
Staff Employee:	)	Travelers Casualty and Surety

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2005.

The actuarial liability for active members was	$58,656,711
The actuarial liability for retired members was	49,099,147
The total actuarial liability was	107,755,858
System assets as of that date were	94,750,560
The unfunded actuarial liability was	$13,005,298
The ratio of system's assets to total actuarial liability was	87.9%
As of that date the total covered employee payroll was	$23,712,706

The normal cost for employees on that date was	8.0% of payroll
The normal cost for the employer was	3.7% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	8.5% per annum
Rate of Salary Increase:	5.0% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2005

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2005	$94,750,560	$107,755,858	$13,005,298	87.9%	$23,712,706	54.8%
1/1/2004	$85,399,470	$106,026,223	$20,626,753	80.5%	$21,566,212	95.6%
1/1/2002	$86,804,347	$92,331,925	$5,527,578	94.0%	$20,777,071	26.6%
1/1/2001	$87,599,643	$86,111,142	($1,488,501)	101.7%	$19,809,847	-7.5%
1/1/2000	$85,512,125	$81,499,708	($4,012,417)	104.9%	$19,086,827	-21.0%

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	7	13	6	9	12	22	11	8	11	15
Ordinary Disability	0	0	0	0	0	1	0	0	0	0
Accidental Disability	1	1	0	5	2	0	6	2	0	1
Total Retirements	8	14	6	14	14	23	17	10	11	16
Total Retirees, Beneficiaries and Survivors	347	344	344	342	345	346	369	360	357	377
Total Active Members	508	518	494	503	572	563	567	596	610	556
Pension Payments										
Superannuation	$2,357,168	$2,446,489	$2,474,204	$2,573,672	$2,663,706	$2,817,525	$3,270,483	$3,312,480	$3,457,721	$3,737,116
Survivor/Beneficiary Payments	220,117	203,598	212,804	200,793	240,360	273,261	356,971	318,588	332,954	350,861
Ordinary Disability	111,783	103,628	116,732	120,676	119,534	119,503	116,020	119,889	159,018	134,394
Accidental Disability	589,650	615,559	643,700	755,746	811,680	775,169	810,583	996,947	996,473	1,019,222
Other	444,599	461,862	467,314	527,107	507,804	514,465	510,383	607,805	686,172	602,767
Total Payments for Year	$3,723,317	$3,831,136	$3,914,754	$4,177,994	$4,343,084	$4,499,923	$5,064,440	$5,355,709	$5,632,338	$5,844,360

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